

**Supplemental Reporting Document  
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August 2006 Investment Committee Meeting  
(June 2006 Reporting Period)**

**Quarterly Reports**

- Proxy Voting
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- Internally Managed High Quality LIBOR Fund

**Investment Office**

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August 14, 2006

**SUPPLEMENTAL ITEM****TO: MEMBERS OF THE INVESTMENT COMMITTEE****I. SUBJECT:** Proxy Voting – Quarterly Report Results**II. PROGRAM:** Public Markets**III. RECOMMENDATION:** Consent Item**IV. ANALYSIS:**

On a quarterly basis, staff provides a report on CalPERS' proxy voting results to the Investment Committee. This agenda item provides detailed results on CalPERS' proxy votes for the period April 1, 2006 to June 30, 2006. Staff is delegated the authority and responsibility to execute all proxies and voting instructions in a manner that is consistent with the Board's Global Proxy Voting Principles.

The following table provides a summary of CalPERS' internal proxy voting results for the period. Staff continues to update this table to provide the Committee with a 5-quarter rolling analysis of CalPERS' proxy voting results.

<b>Period</b>	<b>Approximate Number of Meetings Voted</b>	<b>Approximate Number of Individual Items Voted</b>	<b>Number of Shareowner Proposals Voted</b>	<b>Percent of Shareowner Proposals Supported</b>
04/01/06 to 06/30/06	3067	20444	558	84%
01/01/06 to 03/31/06	519	2699	55	63%
10/01/05 to 12/31/05	531	2614	31	87%
07/01/05 to 09/30/05	397	2100	16	68%
04/01/05 to 06/30/05	3274	20054	575	74%

\*\*Source: ProxyEdge

In addition to the summary above, we have prepared detailed reports of CalPERS' proxy votes cast during the period April 1, 2006 to June 30, 2006, as attachments for this item. Although the attachments are not included in the agenda materials due to their size, they may be requested through the Investment Committee Secretary.

**Attachment 1** contains the internal proxy voting decisions made in CalPERS' domestic portfolios and CalPERS' international portfolios, including staff's comments.

**Attachment 2** contains the proxy votes for the Small Cap Index Fund (SW9P) that were cast on behalf of CalPERS between April 1, 2006 to June 30, 2006. To support resource constraints, CalPERS hired Glass Lewis & Co. to vote the approximately 2500 proxies (per year) within the Small Cap Fund.

## PROXY VOTING HIGHLIGHTS FOR THE DOMESTIC AND INTERNATIONAL PORTFOLIOS

### A. Domestic Proxy Voting

A sampling of domestic proxy votes cast **against** management from April 1, 2006 to June 30, 2006 includes:

#### 1) Egregious executive compensation plans:

Company	Cost Analysis	Additional Factors <sup>(5)</sup>
WM. Wrigley Jr. Co. 4/4/06	The cost of the plan compared to the financial performance of the company was outside one standard deviation when compared to similar plans. <sup>(4)</sup>	The plan allows for reload stock options.
Usana Health Sciences, Inc. 4/19/06	The cost of the plan compared to the financial performance of the company was outside one standard deviation when compared to similar plans. <sup>(4)</sup>	Vesting provisions at the discretion of the plan administrator.
Progress Software Inc. 4/20/06	The cost of the plan was within acceptable limits.	The plan allows for reload stock options.
Baldor Electric Co. 4/24/06	Shareholder Value Transfer <sup>(1)</sup> : 11.24%, Allowable Cap <sup>(2)</sup> : 10.55%, and Voting Power Dilution <sup>(3)</sup> : 14.22%	The plan allows for the repricing of stock option without shareowner approval.
Broadcom Corp. 4/27/06	The cost of the plan compared to the financial performance of the company was outside one standard deviation when compared to similar plans. <sup>(4)</sup>	The plan has an evergreen provision and allows for the repricing of stock options.

NRG Energy Inc. 4/28/06	The cost of the plan compared to the financial performance of the company was outside one standard deviation when compared to similar plans. <sup>(4)</sup>	The plan allows for the repricing of stock options without shareowner approval.
West Corp. 5/11/06	The cost of the plan was within acceptable limits.	Vesting provisions at the discretion of the plan administrator.

- 1) Shareholder Value Transfer - Dollar cost to the company of all stock option plans as participants exercise awards expressed as a percent of market value. Source: Institutional Shareholder Services.
- 2) Allowable Cap - Based on benchmark shareholder value transfer levels for the company's industry, expressed on a percent of market value. Source: Institutional Shareholder Services.
- 3) Voting Power Dilution - Share allocation from all stock option plans as a percent of share allocation plus shares outstanding. Source: Institutional Shareholder Services.
- 4) Glass Lewis & Co. evaluates equity-based plans using twenty different analyses, comparing the program with both absolute limits and a carefully chosen peer group. The model seeks to determine if the proposed plan is either more than one standard deviation away from the average plan for the peer group, on a range of criteria, or exceeds one of the absolute limits.
- 5) At the June 16, 2003 meeting, the CalPERS Board of Directors approved additional policy issues to be applied to voting in relation to compensation plans.

## 2) Shareowner proposals:

CalPERS voted **in favor** of the following shareowner proposals:

Company	Meeting	Proposal	Reason
Brocade Com. Inc.	4/17/06	Eliminate Supermajority Voting Requirements	CalPERS is a firm supporter of this concept.
Suntrust Banks	4/18/06	Declassify the Board of Directors	CalPERS believes annual elections foster accountability.
BellSouth Corp.	4/24/06	Disclose Political Contributions	CalPERS believes this proposal will not pose long term harm to the company.

Members of the Investment Committee

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Dominion Resources Inc.	4/28/06	Majority Vote for Director Election	CalPERS is a strong supporter of greater director accountability.
Countrywide Financial Corp.	6/14/06	Compensation Committee Report	CalPERS is a firm supporter of increased disclosure in executive compensation and believes implementation of this proposal will be a benefit so shareowners.

CalPERS voted **against** the following shareowner proposals:

<b>Company</b>	<b>Meeting</b>	<b>Proposal</b>	<b>Reason</b>
Pfizer Inc.	4/27/06	Director Term Limits	CalPERS believes term limits may cause the obligatory exit of good directors. The company is better served by periodic re-nominations and re-elections.
Bristol Myers Squibb Co.	5/2/06	Identify Executive Officers receiving in excess of \$500,000 annually	CalPERS believes this proposal may put the company at a competitive disadvantage. This proposal should be considered by the SEC which could make it applicable to the whole market.
Occidental Petroleum Corp.	5/6/06	Limit Executive Compensation	CalPERS believes this would unfairly restrict the company's ability to attract and retain competent executives.
Yum Brands Inc.	5/18/06	Label Genetically Modified Organisms	CalPERS believes the proposal is unmerited because the company is already in compliance with existing food labeling regulations.
Federated Department Stores Inc.	5/19/06	Limit Director Board Membership	CalPERS believes the board is best suited to evaluate whether its directors are allocating sufficient time to their job. Thus, we find this proposal too restrictive.

### 3) Proxy Contests:

There were no significant proxy contests during the quarter.

### 4) Website votes:

The following is a sample of Website votes cast during the quarter:

Company/Date	Issue	Vote	Reason
Suntrust Bank 4/18/06	Elect Directors	Withhold vote from nominee E. Isdell	Nominee had a poor attendance record.
AT&T Inc. 4/28/06	Elect Directors	Withhold vote from nominee A. Busch, M. Metz, and J. Roche.	Nominees are affiliates that sit on the Nominating Committee.
Nucor Corp. 5/11/06	Increase Authorized Shares	Against	CalPERS believes the company currently has sufficient shares to continue operations.
Level 3 Communications 5/15/06	Amend the Company Stock Plan	Against	CalPERS believes the plan is too costly in comparison to its peers.
General Motors Corp. 6/6/06	Clawback Proposal	For	CalPERS believes companies should develop and disclose a policy for recapturing bonus and incentive payments that were made to executives on the basis of having met or exceeded performance targets during a period of fraudulent activity or a material negative restatement of financial results for which executives are found personally responsible.

### 5) International Proxy Voting:

A sampling of International proxy votes cast **against** management during the quarter:

Company	Country	Date	Issue	Reason
Parkway Holdings LTD	Singapore	4/12/06	Approve issuance of shares and stock options	Due to a high level of dilution.
UBS AG	South Africa	4/19/06	Approve stock option grant	The plan lacks performance metrics.
Antofagasta PLC.	United Kingdom	6/14/06	Director Election	Director nominee R. Jara is an affiliate sitting on the Nominating Committee.

### 6) Mergers:

The following is a sample of Merger votes cast during the quarter:

Target	Acquirer	Date	Vote	Rationale
Maxtor Corp.	Seagate Technology	5/17/06	For	CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies.
Jefferson Pilot Corp	SuperValu Inc.	5/30/06	For	CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies.

**V. STRATEGIC PLAN:**

This item is not a product of either the 2005-06 Strategic or Annual Plan.

**VI. RESULTS/COSTS:**

Costs associated with proxy voting are contained within the Investment Office budget. Total expenses related to proxy voting are approximately \$300,000 annually.

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Todd Mattley  
Investment Officer

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Dennis Johnson  
Senior Portfolio Manager

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Christianna Wood  
Senior Investment Officer

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Anne Stausboll  
Assistant Executive Officer

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Russell Read  
Chief Investment Officer





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August 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Domestic Fixed Income  
(Quarter Ended June 30, 2006)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed domestic fixed income portfolio to approved policy guidelines for the quarter ended June 30, 2006.

The Investment Committee approved the "Statement of Internally Managed Dollar Denominated Fixed Income Policy, Guidelines and Procedures" at its May 13, 1996 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Lehman Long Liability Index (LLL). Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of  $\pm 20\%$  of the Lehman Long Liability on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in

the benchmark index, the Lehman Long Liability. The table lists the permissible range for weightings in each sector, and sector weightings of the Lehman Long Liability and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines.

**V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

The market value of the internally managed domestic fixed income portfolio as of June 30, 2006 was \$ 43 billion. This agenda item provides a review of portfolio compliance to its guidelines.

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Mike Johnson  
Investment Officer

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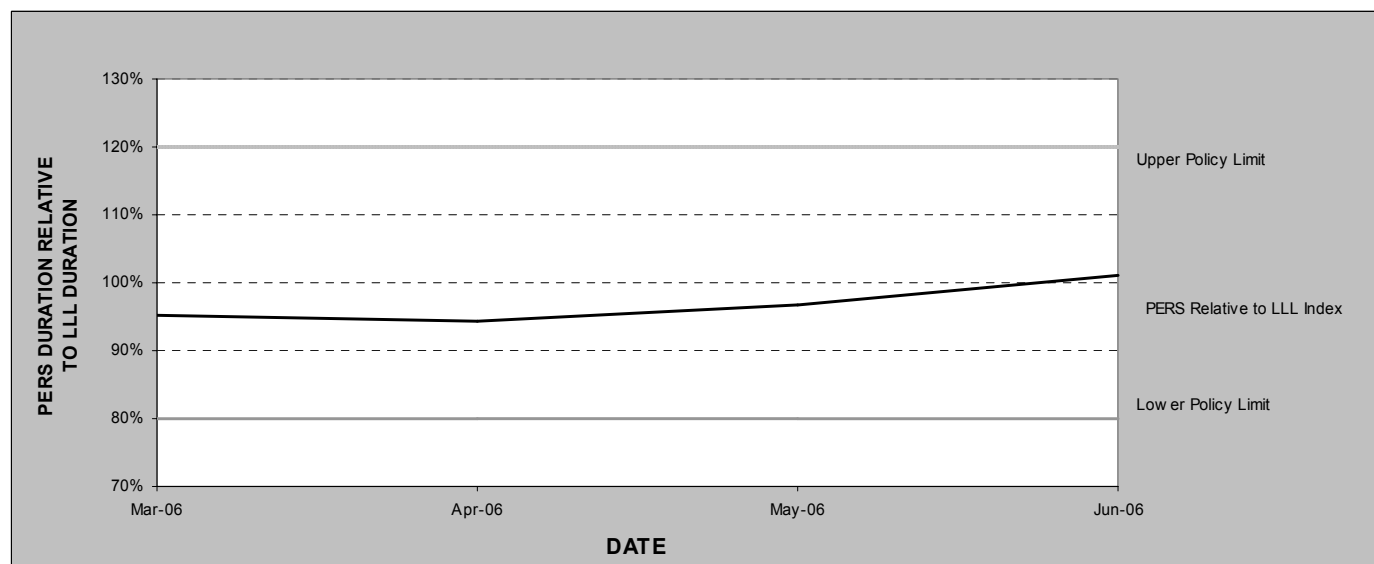
Curtis D. Ishii  
Senior Investment Officer

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Russell Read  
Chief Investment Officer

# QUARTERLY REVIEW OF THE DOMESTIC FIXED INCOME PORTFOLIO ENDING June 30, 2006

## I. Interest Rate Risk



## II. Sector Risk

SECTOR	PERMISSIBLE RANGE	LONG LIABILITY	9/30/2005 PERS	12/31/2005 PERS	3/31/2006 PERS	6/30/2006 PERS
Government	0-50	40	34	33	31	32
Mortgages	10-60	30	34	35	35	34
Sovereigns	0-15	3	2	2	2	2
Investment Grade						
Corporates	10-60	24	25	25	27	27
Opportunistic <sup>1</sup>	0-19	3	5	6	5	5

<sup>1</sup> High Yield

## III. Violations to Policy: None



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August 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Short-Term Fund  
(Quarter Ended June 30, 2006)
- II. PROGRAM:** Domestic Short-Term
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed short-term fund to approved policy guidelines for the quarter ended June 30, 2006.

The Investment Committee approved the "California Public Employees' Retirement System's Statement Of Internally Managed Dollar Denominated Short-Term Fund Investment Policy, Guidelines and Procedures" (Policy) at its November 18, 1996 meeting. These guidelines require at least quarterly reporting of weighted-average days to maturity, portfolio allocation by asset class and credit quality, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using weighted-average days to maturity.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were no violations during the quarter ended June 30, 2006.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the short-term portfolio as of June 30, 2006 was \$ 817 million. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Mike Johnson  
Investment Officer

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Racel Sy  
Investment Officer

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Arnold B. Phillips  
Senior Portfolio Manager

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Curtis D. Ishii  
Senior Investment Officer

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Russell Read  
Chief Investment Officer

**QUARTER REVIEW OF THE DOMESTIC  
SHORT-TERM FUND ENDING June 30, 2006**

**I. Interest Rate Risk**

The weighted-average days to maturity of the Short-Term Fund were 2 days.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<b><u>Asset Type</u></b>	<b><u>Policy Limits</u></b>	<b><u>Portfolio Holdings</u></b>
State Street Bank STIF	100%	46.91%
U.S. Treasury and Agencies	100	0.0
Repurchase Agreements	20	0.0
Corporate Securities	100	53.08
Asset-Backed Securities	25	0.0
Total Short-Term Fund		<u>100.0%</u>

**Credit Quality**

Securities rated A1/P1 or higher	100%	95.84%
Total Split Rated and A2/P2	30	<u>4.16</u>
Total Short-Term Fund		<u>100.0%</u>

**Other Restriction**

Total Floating Rate Exposure	50%	0.0%
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**III. Violations To Policy**

There were no policy violations this quarter.



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August 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Short Duration Fund  
(Quarter Ended June 30, 2006)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed Short Duration Fund to approved policy guidelines for the quarter ended June 30, 2006.

The Investment Committee approved the "California Public Employees' Retirement System Statement Of Investment Policy For Dollar-Denominated Fixed Income Limited-Duration Investment Policy" (Policy) at its February 14, 2006 meeting. These guidelines require at least quarterly reporting of portfolio duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using portfolio duration.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There was one violation during the quarter ended June 30, 2006. Market value appreciation pushed the Corporate U.S. Finance Sector market value

slightly over the compliance threshold. Staff immediately sold \$5 million in this sector to bring the fund back in compliance.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the Short Duration Fund portfolio as of June 30, 2006 was \$932 million. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Mike Johnson  
Investment Officer

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Racel Sy  
Investment Officer

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Arnold B. Phillips  
Senior Portfolio Manager

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Curtis D. Ishii  
Senior Investment Officer

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Russell Read  
Chief Investment Officer



**QUARTER REVIEW OF THE INTERNALLY MANAGED  
SHORT DURATION FUND ENDING June 30, 2006**

**I. Interest Rate Risk**

The portfolio duration of the Short Duration Fund was 0.08.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u><b>Asset Type</b></u>	<u><b>Policy Limits</b></u>	<u><b>Portfolio Holdings*</b></u>
State Street Bank STIF	100%	.17%
AAA Structured Securities	100	51.52
Non AAA Structured Securities	50	7.61
Bridge Loans	100	.45
Money Market Securities ( $\geq$ A1/P1)	100	8.20
Money Market Securities ( $<$ A1/P1)	25	1.99
Total Corporate Securities	50	23.21
<u><b>Credit Quality</b></u>		
Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	60.34%
Total Split Rated and A2/P2 (ST) or non-AAA (LT)	50	32.82
<u><b>Other Restriction</b></u>		
Total Fixed Rate Exposure ( $>$ 35 day maturity)	35%	0.52%

\*Based on \$1 Billion portfolio, thus will not add to 100%

**III. Violations To Policy**

The following policy violation occurred this quarter:

Market Value appreciation caused the total market value of securities in the Corporate US Finance Sector to exceed the compliance threshold by \$327,000. Staff sold off \$5 million of securities in this sector the next day to bring the fund back in compliance.



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August 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed High Quality LIBOR Fund  
(Quarter Ended June 30, 2006)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed High Quality LIBOR fund to approved policy guidelines for the quarter ended June 30, 2006.

The Investment Committee approved the "California Public Employees' Retirement System Statement Of Investment Policy For Dollar-Denominated Fixed Income Limited-Duration Investment Policy" (Policy) at its February 14, 2006 meeting. These guidelines require at least quarterly reporting of portfolio duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using portfolio duration.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were no violations during the quarter ended June 30, 2006.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the High Quality LIBOR portfolio as of June 30, 2006 was \$8.1 billion. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Mike Johnson  
Investment Officer

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Racel Sy  
Investment Officer

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Arnold B. Phillips  
Senior Portfolio Manager

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Curtis D. Ishii  
Senior Investment Officer

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Russell Read  
Chief Investment Officer

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
HIGH QUALITY LIBOR FUND ENDING June 30, 2006**

**I. Interest Rate Risk**

The portfolio duration of the High Quality LIBOR Fund was 0.09.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u><b>Asset Type</b></u>	<u><b>Policy Limits</b></u>	<u><b>Portfolio Holdings</b></u>
State Street Bank STIF	100%	0.76%
AAA Floating Rate Structured Securities	100	96.64
AAA Fixed Rate Structured Securities	20	0.00
Money Market Securities ( $\geq$ A1/P1)	100	1.42
Money Market Securities ( $<$ A1/P1)	25	1.18
High Quality Libor Fund		<u>100.0%</u>
<u><b>Credit Quality</b></u>		
Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	98.82%
Total Split Rated and A2/P2 money market securities ( $>$ 1 day maturity)	25	1.18
High Quality Libor Fund		<u>100.0%</u>
<u><b>Other Restriction</b></u>		
Total Fixed Rate Exposure ( $>$ 35 day maturity)	20%	0.00%

**III. Violations To Policy**

There were no policy violations this quarter.